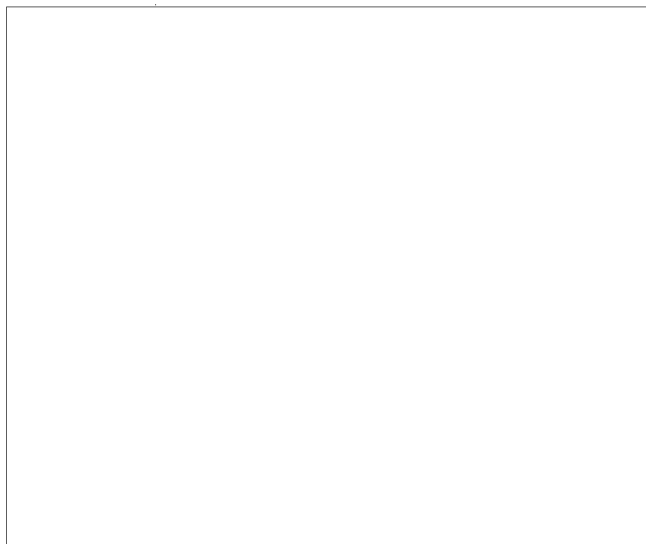


REPORT TO THE DIRECTOR OF CENTRAL INTELLIGENCE
FROM THE
MILITARY-ECONOMIC ADVISORY PANEL

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The following report by the Military-Economic Advisory Panel (MEAP) is an amalgamation of several things:

- Our general impression of the analysis provided by the National Foreign Assessment Center (NFAC);
- Four specific aspects of NFAC analysis which we feel deserve your special attention; and,
- Answers to specific questions posed by the DCI in past months.

The report grows out of an intensive survey by MEAP of several topics new to the Panel, including China, Eastern Europe, and new areas in the overall Soviet economy.

I. General Impression

Our overall general impression is of continuing high quality economic analysis in the Office of Strategic Research (OSR) and the Office of Economic Research (OER). In terms of general competence in the subject matter, vitality and morale, we continue to be favorably impressed. If anything, the analysis keeps improving over the years. This is particularly evident in Soviet military-economic analysis--our principal area of interest.

We are also satisfied with the continuing progress that OSR and OER have been making in working together effectively. Again, this is clearest in Soviet military-economic analysis, the area where they have the most overlap.

There are two areas of concern. The first is that we feel that the various offices in NFAC are concentrating too much on current intelligence, and not enough on mid- and long-range intelligence. However, because of outside demands for current intelligence, we are not sure that there would be analysts available to switch from current to longer range. Thus, we can offer no easy solution, but it is a problem we think you should be aware of.

Our second concern is that those organizations which are NFAC's natural "clients" do not seem to appreciate or fully use the Agency's economic analysis. We have some preliminary suggestions for better presentation and dissemination of the Agency's analysis which are given in Section D of Part II.

II. *Areas Which Need More DCI Attention*

Based on our work of the last 18 months, there are four areas we would especially like to call to your attention:

A. Joint Military-Political Analysis Would Be Useful

We have noted several areas where joint military and political analysis would be useful. The perfect example is China, where it appears that political considerations and political leaders exert much greater control over the size and composition of the defense program than in the USSR. It is clear that analysis of Chinese defense spending trends or the modernization program will make little sense unless tied in with political analysis every step of the way.

A second example is the Eastern Europe lines of communication (LOC) question which you asked us to investigate: the degree to which the Soviets could count on their allies to protect and support their LOCs. The military analysis (discussed in Part III) is at best ambiguous without a completely integrated political analysis and the latter appears to be lacking.

B. Analysis of Soviet Military Resource Planning Needs Improvement

An area which the Panel feels needs improvement is analysis of the process by which the Soviet Union makes its military-economic resource decisions. Some progress has already been made: analysis within OSR and by the R&D team has begun to develop a clearer picture of the momentum built into major Soviet programs. Near-term projections must take this momentum into account. However, the slowdown of its economy presents the Soviet Union with increasingly difficult resource allocation decisions between military and civilian spending. Some of the major decision makers are also likely to change soon.

Given the situation described above, we need to significantly improve our understanding of the resource planning process in order to identify indicators that will show when the direction of the present inertia starts to change. Clearly, a major integrated effort combining strategic, economic, and political analysis is required.

A high quality study was recently performed in OPA by Gray Hodnett on Soviet decisionmaking with respect to energy, providing a great deal of useful information on how the Soviet economic planning process really works (in contrast to declared policies). This kind of sophisticated political-economic study of decisionmaking and institutional process would be extremely useful in the area of Soviet military resource planning.

The NFAC Staff has initiated an effort to attack this problem, starting with a productive weekend session this past winter. We would urge continuous and deeper support for this effort.

C. There is a Need to Develop Economic Indicators that will Show Changes in Soviet Defense Spending

The primary question in Soviet military-economic analysis is the future course of overall Soviet defense spending. Currently, the Agency is projecting a constant rate of growth in defense spending despite the slower economic growth, based on the evidence of programs in process. However, the increasingly serious slowdown in economic growth may cause the Soviets to make decisions that break with the patterns of the past or interrupt the pace of programs currently underway.

It would be very useful to be able to identify in advance what signs we are likely to see if the Soviets change their defense spending patterns. We have emphasized in our last two meetings with NFAC representatives the importance of developing leading or trailing economic indicators which would indicate that a change was taking or had taken place. For example, by looking at key industrial sectors (e.g., machine tool building) as leading indicators, we might identify which are becoming bottlenecks as economic growth slows. Since the military uses one-third of the industrial output of the Soviet Union, such bottlenecks could seriously affect defense investment as Soviet leaders choose between military and civilian allocation of the resources in short supply. In a similar way, trailing indicators could help identify resource decisions already made which were missed by other analyses.

We believe OSR and OER share our concerns, but feel that the subject is sufficiently important to bring it to your attention.

D. *The Agency Should Try to Increase the National Security Establishment's Appreciation of the Quality of Its Economic and Military-Economic Analysis*

During our substantive evaluation of NFAC's analysis, we observed what we consider an interesting fact: the users of NFAC outputs do not seem to appreciate the quality of the products they receive. This vast topic is clearly outside our mandate; however, we would like to point out a few steps we feel might improve the situation.

The problem is not so much "marketing" the NFAC outputs as maintaining better communication with users to ascertain their needs. Thus, NFAC Staff should think of their audience when preparing reports. The National Intelligence Officers (NIOs) combine a superior insight into the needs of consumers of Agency analysis with an excellent knowledge of that analysis. At present, it appears to the Panel that the NIOs by and large (with certain exceptions) operate outside the mainstream of NFAC analysis. If this observation is correct, then not only is their insight not being reflected in the Agency's analytical program, but a valuable channel for introducing the analysts themselves to other organizations is being lost.

With respect to individual users:

- An aggressive campaign is called for to expand contacts with the Offices of International Security Affairs and Program Analysis and Evaluation in DOD.
- Contact with the Office of the Secretary of Defense (OSD) is primarily through Andy Marshall and Bill Perry, neither of whom is really concerned with US force issues, resource allocation, or required strategy. Additional OSD contacts with more responsibility for US force planning would also be desirable.
- Contact with the National Security Council (NSC) Staff has declined markedly in the last several years. The apparent decrease of interest on the part of the NSC Staff in doing program analysis and other long-term planning is probably a major cause, but there are NSC Staff members with an interest in longer term Agency military-economic analysis.
- Congressional committees--particularly the Senate Armed Services and Foreign Affairs Committees--appear to be headed towards undertaking or commissioning longer term studies. Thus, they may be interested in the Agency's work, much as the Joint Economic Committee has used OER work.

III. *Answers to Specific DCI Questions*

A. *Should There be a Reduction in the Present Level of Analytical Effort Devoted to Estimating Soviet Military Spending?*

This is a more specific version of a general question you raised concerning allocation of analytic resources within NFAC. To answer it, the Panel has examined both the Military-Economic Analysis Center (MEAC) program and the OER supporting resources.

There are about 18 full-time equivalent analysts working on Soviet defense expenditures, all located within MEAC. The Panel has performed neither a requirements analysis nor a program review on this effort, but we have examined the MEAC assignments and the content of its work. Based on this limited examination, we feel the present level of effort is justified for the following reasons:

- ° There is a strong demand for Agency analysis of Soviet defense expenditures throughout both the executive and legislative branches. It is this demand, rather than bureaucratic "inertia" or a surplus of analysts, which has caused the large ongoing effort.
- ° The analysis program has many interlocking functions, none of which can be dropped without affecting the whole effort. For example, the dollar-ruble ratio analysis must be performed in order to estimate the ruble cost of Soviet support programs. To take another instance, dropping the dollar costing of Soviet military manpower would seriously impact attempts to estimate the size of the overall Soviet defense budget.
- ° There are many significant new topics which we feel should be addressed in an analysis of the resource allocation process, such as the selection of leading indicators of a slowdown in defense budget growth. Such programs will require analysts' time on top of their present work.

Even when we examined the components of the Soviet military-economic analysis program individually, the levels of effort devoted to each appeared about right to us. Thus, we saw no obvious "fat" which could be trimmed from the effort.

→ B. *Would the Soviets Really Leave Protection of Their Lines of Communication (LOCs) to their Eastern European Allies in Case of War?*

This question turns out to be more significant and much tougher to answer than it first appears. The immediate answer is that the OSR military analysis has not gone far enough to fully address the question. The OSR analysis, which is good as far as it goes, brings out the following points:

- Soviet defense plans require their allies to provide active LOC support, not just security.
- Their allies appear committed, based on *peacetime* training and exercise, to provide LOC support.
- The Eastern European countries have enough forces, doctrine, and equipment to provide this support PLUS provide for their own domestic security.

Once we begin digging a little deeper, however, some interesting questions arise:

- Ten years ago, the Soviets planned on providing LOC support themselves, but now they plan to rely on their allies. Is this because they now have more confidence in their allies, or because their defense requirements against China do not leave them sufficient troops to also protect their Eastern European LOCs?
- All training of Soviet allies is based on the assumption of a NATO attack. Would or could the allies support a Soviet offensive which was not preceded by a NATO attack?
- In recent years, the Eastern European allies have been heavily subsidized by the Soviets. However, given the Soviets' impending economic problems, these subsidies will probably be reduced or

eliminated. *What effect will this economic blow have on military cooperation among the Warsaw Pact countries?*

Obviously, this issue requires political as well as military analysis. Because protection of LOCs is critical to the Soviet Union's ability to attack NATO countries, a lack of Eastern European support to Soviet plans would be enormously significant. The Panel feels that the DCI's skepticism on this issue is well founded, and recommends further analysis.

C. *How Can the Agency Respond to DOD's Request for Longer Term Projections?*

Apparently, OSR and the Office of Scientific Intelligence (OSI) are undertaking a program to integrate R&D estimates explicitly into the projections. This will push parts of the weapon projections out several years beyond where they are now.

This appears to be a reasonable and encouraging concrete action on the Agency's part to meet the DOD need. We plan to discuss the above program at the Panel's fall meeting.

D. *How Can We Develop Comparative Measures of Conventional Force Effectiveness in Central Europe?*

How Can We Measure Foreign Military Assistance to the LDCs?

These are areas we know little about. However, it appears that good, innovative, stand-alone analysis will be more important than familiarity with intelligence sources and estimates. If this is true, and if you deem these questions sufficiently important, they would be good candidates for outside contracting.